

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Mikado Township	County Alcona
Fiscal Year End 3-31-2006	Opinion Date 9-13-2006	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 	Printed Name Steven C. Arends	License Number 1101013211	

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

MARCH 31, 2006

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MARCH 31, 2006

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134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 13, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
Mikado Township
Alcona County
Mikado, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mikado Township, Alcona County, Mikado, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mikado Township, Alcona County, Mikado, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mikado Township, Alcona County, Mikado, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Mikado Township, a general law township located in Alcona County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mikado Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$492,380. Of this amount, \$164,351 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$308,228. About 53.54% is available for spending at the Township's discretion.
- ◆ The Township's total debt decreased by \$10,427 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Mikado Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$492,380 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Mikado Township
Net Assets as of March 31, 2006

	Governmental
Assets	Activities
Current Assets	<u>\$ 311,961</u>
Non Current Assets	
Capital Assets	\$ 451,833
Less: Accumulated Depreciation	<u>179,093</u>
Total Non Current Assets	<u>\$ 272,740</u>
Total Assets	<u><u>\$ 584,701</u></u>
Liabilities	
Current Liabilities	\$ 15,326
Non Current Liabilities	<u>76,995</u>
Total Liabilities	<u>\$ 92,321</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 184,833
Restricted for Specific Purposes	143,196
Unrestricted	<u>164,351</u>
Total Net Assets	<u>\$ 492,380</u>
Total Liabilities and Net Assets	<u><u>\$ 584,701</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$164,351 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$143,190 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Mikado Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2006

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 17,596
Operating Grants and Contributions	1,968
Capital Grants and Contributions	118,663
General Revenues	
Property Taxes	121,910
State Grants	75,321
Interest Earnings	5,324
Gain on Sale of Capital Assets	1,502
Other	<u>13,482</u>
Total Revenues	<u>\$ 355,766</u>
<u>Expenses</u>	
Legislative	\$ 29,989
General Government	60,845
Public Safety	62,585
Public Works	44,773
Community and Economic Development	3,865
Recreational and Cultural	6,999
Other Functions	<u>3,520</u>
Total Expenses	<u>\$ 212,576</u>
Change in Net Assets	\$ 143,190
<u>NET ASSETS</u> – Beginning of Year	<u>349,190</u>
<u>NET ASSETS</u> – End of Year	<u><u>\$ 492,380</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$143,190 in the governmental activities. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant portion of the revenue for all governmental activities of Mikado Township comes from property taxes. The Township levied a millage for road maintenance and fire protection, in addition to the

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

operating millages, this fiscal year. The Township levied 0.6098 mills for operating purposes, 1.8909 mills for road maintenance, and 0.9815 mills for fire protection.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In fiscal year 2006, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Township's governmental activities expenses are dominated by public safety expenses that total 29.44% of total expenses. The Township spent \$62,585 in fiscal year 2006 on public safety expenses. General government represented the next largest expense at \$60,845, or 28.62% of total expenses. Expenses for salaries and contracted services represent a large portion of the general government expenses at \$35,651. Depreciation expense added another \$1,737 in general government expense and \$24,435 in public safety expense.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Mikado Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Mikado Township's governmental funds reported combined ending fund balances of \$308,228. Approximately 53.54% or \$165,032 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road maintenance.

General Fund – The General Fund decreased its fund balance by \$(13,459) which brings the fund balance to \$155,032. The General Fund's fund balance is unreserved. All of the General Fund's functions, except for Public Safety, Building and Grounds, Cemetery and recreation, ended the year with expenditures below budgeted amounts. The differentials were funded by available fund balance and greater than anticipated revenues. Property taxes amounted to \$17,116. State shared revenues were collected in the amount of \$72,294.

Road Fund – The Road Fund increased its fund balance by \$22,134 which brings the fund balance to \$102,446. This balance is reserved and must be used for road maintenance. Property taxes collected amounted to \$53,086.

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MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Fire Fund – The Fire Fund increased its fund balance by \$12,994 which brings the fund balance to \$40,750. Property taxes collected amounted to \$27,553. The only expenditure was for debt service in the amount of \$15,000.

Budget Stabilization Fund – The Budget Stabilization Fund fund balance remained the same at \$10,000.

Proprietary Fund – The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$272,740 net of accumulated depreciation. The Township's investment in capital assets for the current fiscal year was \$137,185.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually or \$2,500 individually in the fire department and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Mikado Township
Capital Assets as of March 31, 2006

	<u>Governmental Activities</u>
Land	\$ 17,189
Land Improvements	5,300
Buildings	108,851
Machinery and Equipment	<u>320,493</u>
	\$ 451,833
Less Accumulated Depreciation	<u>179,093</u>
Net Capital Assets	<u><u>\$ 272,740</u></u>

Major capital asset events during the current fiscal year included:

- The Township purchased a tanker truck at a cost of \$120,000. The Township received a grant from the Federal Emergency Management Agency in the amount of \$114,000 towards the purchase of the tanker truck.
- A boiler was purchased for the civic center at a cost of \$6,800.
- A generator was installed at the civic center at a cost of \$3,450. The Township received a grant from the Department of Homeland Security in the amount of \$3,450 towards the purchase and installation of the generator.
- New doors were installed at the civic center at a cost of \$1,635.
- A fence was installed around the BMX track at a cost of \$5,300.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Long-Term Debt. At the end of the current fiscal year, the Township had total installment debt outstanding of \$87,907. The entire balance of this debt is backed by the full faith and credit of the government. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. The Township's millage rate was reduced again by the Headlee Amendment rollback.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Mikado Township Clerk at P.O. Box 66, Mikado, Michigan 48745-0066.

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 280,798
Taxes Receivable	13,229
Due from Other Governments	17,233
Due from External Parties (Fiduciary Fund)	701
Total Current Assets	<u>\$ 311,961</u>
<u>CAPITAL ASSETS</u>	
Land	\$ 17,189
Land Improvements	5,300
Buildings	108,851
Machinery and Equipment	320,493
	<u>\$ 451,833</u>
Less Accumulated Depreciation	179,093
Net Capital Assets	<u>\$ 272,740</u>
TOTAL ASSETS	<u><u>\$ 584,701</u></u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 2,371
Pension Payable	1,128
Payroll Taxes and Withholdings	234
Accrued Interest Payable	681
Current Portion of Contract Payable	10,912
Total Current Liabilities	<u>\$ 15,326</u>
<u>NON-CURRENT LIABILITIES</u>	
Contract Payable	\$ 87,907
Less: Current Portion	(10,912)
Total Non-Current Liabilities	<u>\$ 76,995</u>
Total Liabilities	<u>\$ 92,321</u>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	\$ 184,833
Restricted for Road Maintenance	102,446
Restricted for Fire Protection	40,750
Unrestricted	164,351
TOTAL NET ASSETS	<u><u>\$ 492,380</u></u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUE
					AND CHANGES IN NET ASSETS
					TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 29,989	\$ 0	\$ 0	\$ 0	\$ (29,989)
General Government	60,845	11,496	0	3,450	(45,899)
Public Safety	62,585	6,100	1,481	115,213	60,209
Public Works	44,773	0	487	0	(44,286)
Community and Economic Development	3,865	0	0	0	(3,865)
Recreation and Cultural	6,999	0	0	0	(6,999)
Other Functions	3,520	0	0	0	(3,520)
Total Governmental Activities	<u>\$ 212,576</u>	<u>\$ 17,596</u>	<u>\$ 1,968</u>	<u>\$ 118,663</u>	<u>\$ (74,349)</u>
<u>GENERAL REVENUES</u>					
Property Taxes					\$ 121,910
State Grants					75,321
Interest Earnings					5,324
Gain on Sale of Capital Assets					1,502
Other					13,482
Total General Revenues					<u>\$ 217,539</u>
Change in Net Assets					\$ 143,190
<u>NET ASSETS</u> - Beginning of Year					<u>349,190</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 492,380</u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2006

	GENERAL FUND	ROAD FUND	FIRE FUND	BUDGET STABILIZATION FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 139,032	\$ 94,922	\$ 36,844	\$ 10,000	\$ 280,798
Taxes Receivable	2,316	7,184	3,729	0	13,229
Due from Other Governments	17,233	0	0	0	17,233
Due from Other Funds	184	340	177	0	701
Total Assets	<u>\$ 158,765</u>	<u>\$ 102,446</u>	<u>\$ 40,750</u>	<u>\$ 10,000</u>	<u>\$ 311,961</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 2,371	\$ 0	\$ 0	\$ 0	\$ 2,371
Pension Payable	1,128	0	0	0	1,128
Payroll Taxes and Withholdings	234	0	0	0	234
Total Liabilities	<u>\$ 3,733</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,733</u>
<u>FUND BALANCE</u>					
Reserved for:					
Road Maintenance	\$ 0	\$ 102,446	\$ 0	\$ 0	102,446
Fire Protection	0	0	40,750	0	40,750
Unreserved					
Undesignated	155,032	0	0	10,000	165,032
Total Fund Balance	<u>\$ 155,032</u>	<u>\$ 102,446</u>	<u>\$ 40,750</u>	<u>\$ 10,000</u>	<u>\$ 308,228</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 158,765</u>	<u>\$ 102,446</u>	<u>\$ 40,750</u>	<u>\$ 10,000</u>	<u>\$ 311,961</u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balances for Governmental Funds	\$	308,228
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$	17,189	
Land Improvements		5,300	
Buildings		108,851	
Equipment, Furniture and Vehicles		320,493	
Accumulated Depreciation		<u>(179,093)</u>	272,740

Long term liabilities are not due and payable in the current period
and are not reported in the funds

Contract Payable		(87,907)	
Accrued Interest Payable		<u>(681)</u>	

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>492,380</u></u>
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The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	ROAD FUND	FIRE FUND	BUDGET STABILIZATION FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 31,656	\$ 62,701	\$ 27,553	\$ 0	\$121,910
Licenses and Permits	706	0	0	0	706
Federal Grants	117,450	487	0	0	117,937
State Grants	78,015	0	0	0	78,015
Charges for Services	9,975	0	0	0	9,975
Interest and Rents	10,341	1,063	441	394	12,239
Other Revenues	14,984	0	0	0	14,984
Total Revenues	\$263,127	\$ 64,251	\$ 27,994	\$ 394	\$355,766
<u>EXPENDITURES</u>					
Legislative	\$ 29,989	\$ 0	\$ 0	\$ 0	\$ 29,989
General Government	76,293	0	0	0	76,293
Public Safety	153,658	0	15,000	0	168,658
Public Works	2,656	42,117	0	0	44,773
Community and Economic Development	3,865	0	0	0	3,865
Recreation and Cultural	6,999	0	0	0	6,999
Other Functions	3,520	0	0	0	3,520
Total Expenditures	\$276,980	\$ 42,117	\$ 15,000	\$ 0	\$334,097
Excess (Deficiency) of Revenues Over Expenditures	\$ (13,853)	\$ 22,134	\$ 12,994	\$ 394	\$ 21,669
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfer In	\$ 394	\$ 0	\$ 0	\$ 0	\$ 394
Transfer Out	0	0	0	(394)	(394)
Total Other Financing Sources (Uses)	\$ 394	\$ 0	\$ 0	\$ (394)	\$ 0
Net Change in Fund Balance	\$ (13,459)	\$ 22,134	\$ 12,994	\$ 0	\$ 21,669
<u>FUND BALANCE</u> - Beginning of Year	168,491	80,312	27,756	10,000	286,559
<u>FUND BALANCE</u> - End of Year	\$155,032	\$ 102,446	\$ 40,750	\$ 10,000	\$308,228

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 21,669
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(26,172)
Capital Outlay	137,185
Accrued interest on notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued Interest Payable - Beginning of Year	762
Accrued Interest Payable - End of Year	(681)
Repayments of principal on long-term debt is an expenditure in the governmental fund, but not in the statement of activities (where it is a reduction of liabilities).	<u>10,427</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 143,190</u></u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS AND LIABILITIES
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	<u>\$ 701</u>
<u>LIABILITIES</u>	
Due to Other Funds	<u>\$ 701</u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Mikado Township is a general law township located in Alcona County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Mikado Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road maintenance.

The *Budget Stabilization Fund* accounts for revenue sources that are legally restricted to stabilizing the budget.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Additionally, Mikado Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The 2005 taxable valuation of Mikado Township totaled \$28,079,003, on which ad valorem taxes levied consisted of 0.6098 mills for Mikado Township operating purposes, 1.8909 mills for Mikado Township road maintenance, and 0.9815 mills for Mikado Township fire protection. These levies raised approximately \$17,116 for operating purposes, \$53,086 for road maintenance, and \$27,553 for fire protection.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (amount not rounded) in the fire department and \$1,000 (amount not rounded) for all others and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Land improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment and Furniture	5-10

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 14, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund	\$ 171,524	\$	276,980

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

This overage was funded by available fund balance and greater than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are owned by several of the Township's funds. Bank deposits are in Huron Community Bank, Lincoln, Michigan and Northland Area Federal Credit Union, Oscoda, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, \$49,085 of the government's bank balance of \$231,884 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Road	Fire	Total
Receivables				
Taxes	\$ 2,316	\$ 7,184	\$ 3,729	\$ 13,229
Due from Other Governments	17,233	0	0	17,233
Total	<u>\$ 19,549</u>	<u>\$ 7,184</u>	<u>\$ 3,729</u>	<u>\$ 30,462</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets, not being depreciated				
Land	\$ 17,189	\$ 0	\$ 0	\$ 17,189
Capital assets, being depreciated				
Land Improvements	\$ 0	\$ 5,300	\$ 0	\$ 5,300
Buildings	107,216	1,635	0	108,851
Machinery and Equipment	190,243	130,250	0	320,493
Total capital assets, being depreciated	<u>\$ 297,459</u>	<u>\$ 137,185</u>	<u>\$ 0</u>	<u>\$ 434,644</u>
Less accumulated depreciation for:				
Land Improvements	\$ 0	\$ 110	\$ 0	\$ 110
Buildings	103,534	582	0	104,116
Machinery and Equipment	49,387	25,480	0	74,867
Total accumulated depreciation	<u>\$ 152,921</u>	<u>\$ 26,172</u>	<u>\$ 0</u>	<u>\$ 179,093</u>
Total capital assets being depreciated, net	<u>\$ 144,538</u>	<u>\$ 111,013</u>	<u>\$ 0</u>	<u>\$ 255,551</u>
Governmental activities capital assets, net	<u>\$ 161,727</u>	<u>\$ 111,013</u>	<u>\$ 0</u>	<u>\$ 272,740</u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 1,737
Public Safety	24,435
	<u>\$ 26,172</u>

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
General Fund	\$ 184	\$ 0
Special Revenue Funds		
Road	340	0
Fire	177	0
Fiduciary Fund		
Current Tax Collection Fund	0	701
	<u>\$ 701</u>	<u>\$ 701</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund transfers as of March 31, 2006 were:

	<u>TRANSFERS IN</u>	<u>OUT</u>
<u>Primary Government</u>		
General Fund	\$ 394	\$ 0
Budget Stabilization Fund	0	394
	<u>\$ 394</u>	<u>\$ 394</u>

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

The following is a summary of the long-term debt transactions of the Township of Mikado for the year ended March 31, 2006:

	<u>CONTRACTS PAYABLE</u>
Long -Term Debt Payable	
At April 1, 2005	\$ 98,335
New Debt Incurred	0
Payments on Debt	<u>(10,427)</u>
LONG-TERM DEBT PAYABLE	
AT MARCH 31, 2006	\$ <u>87,907</u>
Due Within One Year	\$ <u>10,912</u>

Debt payable at June 30, 2005 consisted of the following:

Fire Truck Contract	
\$117,820 Payable to Old National due in annual	
installments of \$15,000 through January 30, 2013, interest	
at 4.65%	\$ <u>87,907</u>

The annual requirements to amortize debt outstanding as of March 31, 2006 including interest of \$17,093 are as follows:

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,912	\$ 4,088	\$ 15,000
2008	11,420	3,580	15,000
2009	11,951	3,049	15,000
2010	12,506	2,494	15,000
2011	13,088	1,912	15,000
2012-2013	<u>28,030</u>	<u>1,970</u>	<u>30,000</u>
Total	\$ <u>87,907</u>	\$ <u>17,093</u>	\$ <u>105,000</u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

Special Revenue Funds

Road Fund

Road Maintenance	\$ 102,446
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Fire Fund

Fire Protection	40,750
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IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds and worker's compensation insurance.

B. Retirement Plan

The Township has a defined contribution pension plan with Traveler's Insurance, Inc. which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date which the employee reaches age 18. Each employee is 100% vested upon entering the plan. An employee's normal retirement age is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan commenced.

The formula for determining contributions is based on an employee's annual compensation. The Township has elected to contribute 6.2% of compensation to the plan annually. In addition, each eligible employee will contribute 6.2%.

Township contributions to the plan for 2005-2006 amounted to \$3,550.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

For the 2005-2006 year, total covered payroll amounted to \$22,871 and total wages including non-covered payroll was \$35,651.

C. Property Tax Administration Fee

The Township passed a resolution to charge a 1% administration fee on all ad valorem, taxes levied. Also a late penalty fee of 3% shall be added after February 14th and shall terminate on the last day of February. The resolution is to continue in force and effect until revoked by the Township Board.

The Township has determined that authorized costs of tax collection will be repeatedly in excess of the revenue generated by the administration fee so that a restricted earnings account is not reflected in these statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND				ROAD FUND				FIRE FUND				BUDGET STABILIZATION FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>																
Taxes	\$ 32,200	\$ 32,200	\$ 31,656	\$ (544)	\$ 50,800	\$ 50,800	\$ 62,701	\$ 11,901	\$ 25,818	\$ 25,818	\$ 27,553	\$ 1,735	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	300	300	706	406	0	0	0	0	0	0	0	0	0	0	0	0
Federal Grants	0	0	117,450	117,450	0	0	487	487	0	0	0	0	0	0	0	0
State Grants	71,300	71,300	78,015	6,715	0	0	0	0	0	0	0	0	0	0	0	0
Charges for Services	9,100	9,100	9,975	875	0	0	0	0	0	0	0	0	0	0	0	0
Interest and Rents	9,695	9,695	10,341	646	200	200	1,063	863	50	50	441	391	0	0	394	394
Other Revenues	2,700	6,950	14,984	8,034	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	\$ 125,295	\$ 129,545	\$ 263,127	\$ 133,582	\$ 51,000	\$ 51,000	\$ 64,251	\$ 13,251	\$ 25,868	\$ 25,868	\$ 27,994	\$ 2,126	\$ 0	\$ 0	\$ 394	\$ 394
<u>EXPENDITURES</u>																
Legislative	\$ 26,970	\$ 31,470	\$ 29,989	\$ 1,481	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government																
Supervisor	6,630	7,200	6,933	267	0	0	0	0	0	0	0	0	0	0	0	0
Elections	675	675	608	67	0	0	0	0	0	0	0	0	0	0	0	0
Assessor	8,950	8,950	7,562	1,388	0	0	0	0	0	0	0	0	0	0	0	0
Clerk	10,652	10,652	9,754	898	0	0	0	0	0	0	0	0	0	0	0	0
Treasurer	9,777	9,777	8,212	1,565	0	0	0	0	0	0	0	0	0	0	0	0
Building and Grounds	31,925	30,125	36,378	(6,253)	0	0	0	0	0	0	0	0	0	0	0	0
Cemetery	5,460	6,560	6,846	(286)	0	0	0	0	0	0	0	0	0	0	0	0
Public Safety																
Fire Department	42,625	42,625	152,829	(110,204)	0	0	0	0	15,000	15,000	15,000	0	0	0	0	0
Liquor Law Enforcement	900	900	829	71	0	0	0	0	0	0	0	0	0	0	0	0
Public Works																
Highways, Streets and Bridges	2,400	2,750	2,656	94	100,050	100,050	42,117	57,933	0	0	0	0	0	0	0	0
Community and Economic Development																
Planning and Zoning	2,700	9,450	3,865	5,585	0	0	0	0	0	0	0	0	0	0	0	0
Recreation and Cultural																
Recreation and Parks	4,390	4,390	6,999	(2,609)	0	0	0	0	0	0	0	0	0	0	0	0
Other Functions	6,000	6,000	3,520	2,480	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures	\$ 160,054	\$ 171,524	\$ 276,980	\$ (105,456)	\$ 100,050	\$ 100,050	\$ 42,117	\$ 57,933	\$ 15,000	\$ 15,000	\$ 15,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Excess (Deficiency) of Revenues																
Over Expenditures	\$ (34,759)	\$ (41,979)	\$ (13,853)	\$ 239,038	\$ (49,050)	\$ (49,050)	\$ 22,134	\$ (44,682)	\$ 10,868	\$ 10,868	\$ 12,994	\$ 2,126	\$ 0	\$ 0	\$ 394	\$ 394
<u>OTHER FINANCING SOURCES (USES)</u>																
Transfer In	\$ 0	\$ 0	\$ 394	\$ (394)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfer Out	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(394)	394
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 394	\$ (394)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (394)	\$ 394
Net Change in Fund Balance	\$ (34,759)	\$ (41,979)	\$ (13,459)	\$ 238,644	\$ (49,050)	\$ (49,050)	\$ 22,134	\$ (44,682)	\$ 10,868	\$ 10,868	\$ 12,994	\$ 2,126	\$ 0	\$ 0	\$ 0	\$ 788
<u>FUND BALANCE - Beginning of Year</u>	60,000	60,000	168,491	108,491	99,952	99,952	80,312	(19,640)	24,132	24,132	27,756	3,624	0	0	0	0
<u>FUND BALANCE - End of Year</u>	\$ 25,241	\$ 18,021	\$ 155,032	\$ 347,135	\$ 50,902	\$ 50,902	\$ 102,446	\$ (64,322)	\$ 35,000	\$ 35,000	\$ 40,750	\$ 5,750	\$ 0	\$ 0	\$ 0	\$ 788

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GENERAL FUND

BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash	
Commercial Account	\$ 5,000
Savings Account	49,032
Certificates of Deposit	85,000
Taxes Receivable	2,316
Due from Other Governments	17,233
Due from Other Funds	184
	<hr/>
TOTAL ASSETS	\$ 158,765
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 2,371
Pension Payable	1,128
Payroll Withholdings	234
	<hr/>
Total Liabilities	\$ 3,733

FUND BALANCE

Unreserved	155,032
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 158,765
	<hr/> <hr/>

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Taxes	\$ 31,656
Licenses and Permits	706
Federal Grants	117,450
State Grants	78,015
Charges for Services	9,975
Interest and Rents	10,341
Other Revenues	14,984
	<hr/>
Total Revenues	\$ 263,127

EXPENDITURES

Legislative	
Township Board	\$ 29,989
General Government	
Supervisor	6,933
Elections	608
Assessor	7,562
Clerk	9,754
Treasurer	8,212
Building and Grounds	36,378
Cemetery	6,846
Public Safety	
Fire Department	152,829
Liquor Law Enforcement	829
Public Works	
Highways, Streets and Bridges	2,656
Community and Economic Development	
Planning and Zoning	3,865
Recreation and Cultural	
Recreation and Parks	6,999
Other Functions	3,520
	<hr/>
Total Expenditures	\$ 276,980
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ (13,853)

OTHER FINANCING SOURCES (USES)

Transfers In	394
	<hr/>
Net Change in Fund Balance	\$ (13,459)

<u>FUND BALANCE</u> - Beginning of Year	168,491
	<hr/>

<u>FUND BALANCE</u> - End of Year	\$ 155,032
	<hr/>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

FIRE FUND

BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash	
Money Market Account	\$ 26,844
Certificate of Deposit	10,000
Taxes Receivable	3,729
Due from Other Funds	<u>177</u>
 TOTAL ASSETS	 <u><u>\$ 40,750</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Reserved for Fire Protection	<u>40,750</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 40,750</u></u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

FIRE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Taxes	\$ 27,553
Interest and Rents	
Interest Earnings	<u>441</u>
 TOTAL REVENUES	 <u>\$ 27,994</u>

EXPENDITURES

Public Safety	
Fire Protection	
Debt Service	
Principal Payment	\$ 10,427
Interest Charges	<u>4,573</u>
 TOTAL EXPENDITURES	 <u>\$ 15,000</u>

Excess (Deficiency) of Revenues	
Over Expenditures	\$ 12,994

<u>FUND BALANCE</u> - Beginning of Year	<u>27,756</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>40,750</u></u>
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MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

ROAD FUND

BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash	
Money Market Account	\$ 94,922
Taxes Receivable	7,184
Due from Other Funds	<u>340</u>
 TOTAL ASSETS	 <u><u>\$ 102,446</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Reserved for Road Maintenance	<u>102,446</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 102,446</u></u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

ROAD FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Taxes	
Property Taxes	\$ 53,086
National Forest	9,615
Federal Grants	
National Forest Royalties	487
Interest and Rents	
Interest Earnings	<u>1,063</u>
Total Revenues	\$ 64,251

EXPENDITURES

Public Works	
Highway, Streets and Bridges	
Other Services and Charges	
Repairs and Maintenance	<u>42,117</u>
Excess (Deficiency) of Revenues	
Over Expenditures	\$ 22,134

<u>FUND BALANCE</u> - Beginning of Year	<u>80,312</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>\$ 102,446</u></u>
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MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

BUDGET STABILIZATION FUND

BALANCE SHEET
MARCH 31, 2006

ASSETS

Cash	
Certificate of Deposit	<u>\$ 10,000</u>

FUND BALANCE

Fund Balance	
Unreserved	<u>\$ 10,000</u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

BUDGET STABILIZATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Interest and Rents	
Interest Earnings	\$ 394

EXPENDITURES

	<u>0</u>
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Excess (Deficiency) of Revenues	
Over Expenditures	\$ 394

OTHER FINANCING SOURCES (USES)

Transfers Out	
General Fund	<u>(394)</u>

Excess (Deficiency) of Revenues	
and Other Sources Over	
Expenditures and Other Uses	\$ 0

<u>FUND BALANCE</u> - Beginning of Year	<u>10,000</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>\$ 10,000</u></u>
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MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2006

	BALANCE 4/1/2005	ADDITIONS	DEDUCTIONS	BALANCE 3/31/2006
<hr/>				
<u>ASSETS</u>				
Cash	\$ 645	\$ 688,857	\$ 688,801	\$ 701
<hr/>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 645	\$ 91,983	\$ 91,927	\$ 701
Due to Other Organizations and Individuals	0	1,779	1,779	0
Due to Other Governments	0	595,095	595,095	0
<hr/>				
Total Liabilities	\$ 645	\$ 688,857	\$ 688,801	\$ 701
<hr/>				

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

STATEMENT OF 2005 WINTER TAX ROLL
MARCH 31, 2006

TAXES ASSESSED

County	\$ 131,845	
Township		
Operating	17,116	
Fire	27,553	
Roads	53,086	
Schools		
Oscoda Area Schools	262,331	
Intermediate Schools		
Alpena, Montmorency, Alcona	8,335	
Iosco	<u>20,791</u>	\$ 521,057

TAXES COLLECTED

County	\$ 114,089	
Township		
Operating	14,800	
Fire	23,824	
Roads	45,902	
Schools		
Oscoda Area Schools	222,001	
Intermediate Schools		
Alpena, Monmorency, Alcona	7,860	
Iosco	<u>17,501</u>	<u>445,977</u>

TAXES RETURNED DELINQUENT

County	\$ 17,756	
Township		
Operating	2,316	
Fire	3,729	
Roads	7,184	
Schools		
Oscoda Area Schools	40,330	
Intermediate Schools		
Alpena, Monmorency, Alcona	475	
Iosco	<u>3,290</u>	<u>\$ 75,080</u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

STATEMENT OF 2005 SUMMER TAX ROLL
MARCH 31, 2006

TAXES ASSESSED

County	\$	39,864	
State Education Tax		168,470	
Alcona Community Schools		<u>41,173</u>	\$ 249,507

TAXES COLLECTED

County	\$	36,332	
State Education Tax		153,530	
Alcona Community Schools		<u>39,955</u>	<u>229,817</u>

TAXES RETURNED DELINQUENT

County	\$	3,532	
State Education Tax		14,940	
Alcona Community Schools		<u>1,218</u>	<u>\$ 19,690</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 13, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Mikado Township
Alcona County
Mikado, Michigan

As a result of our audit of the basic financial statements of Mikado Township for the year ended March 31, 2006, we would like to note the following:

Budgeting

The General Fund expenditures exceeded appropriations by \$105,456. This was primarily due to recording capital outlay expenditures related to the grants for the tanker truck and the generator.

Property Tax Administration Fee

As reported in Note IV.C of the Notes to Financial Statements, the Township is charging a 1% property tax administration fee. The Township has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but has not formally taken action to write off this loss. We recommend that the Township keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

GASB 34

The Government Accounting Standards Board has issued a new pronouncement that dramatically changed the way governmental entities report their financial information. The new accounting standard requires the Township to present its financial statements on both the modified accrual basis of accounting, and the full accrual basis of accounting. For the Township, GASB 34 became effective beginning April 1, 2004.

Some of the changes required by GASB 34 are as follows:

- a) Management's discussion and analysis will be the first thing in a financial report. This will be the administration's narrative overview of the information contained in the financial statements.

- b) The budgetary comparison information must report the original adopted budget and the final amended budget.
- c) Capital assets and long-term liabilities will be required to be reported in the balance sheet. The depreciation on the capital assets will then be reported as an expense in the statement of revenues and expenses. With this change, the financial statements of a government entity look similar to for-profit business financial statements.

We recommend the Township carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

Reportable Condition in Internal Controls

In planning and performing our audit of the basic financial statements of Mikado Township for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements.

Certain matters considered to be reportable conditions in internal control were noted. We are issuing a separate letter (letter of reportable conditions) which addresses those items noted.

General Recordkeeping

The accounting records being maintained for the year ended March 31, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the clerk and treasurer for their fine effort.

We would like to thank the board for awarding our firm the audit assignment and to thank the township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 13, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
Mikado Township
Alcona County
Mikado, Michigan

In planning and performing our audit of the financial statements of Mikado Township, Alcona County, Mikado, Michigan for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Mikado Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.